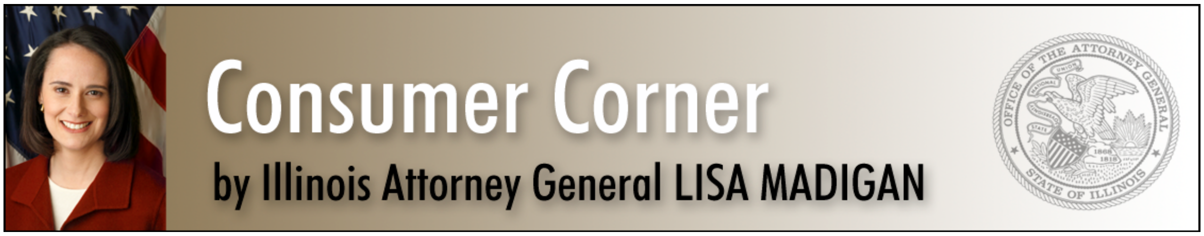

New Law Provides Crucial Protections to Payday Loan Consumers

The Payday Loan Reform Act of 2005 will afford Illinois consumers some much-needed protections from an industry with a history of abusive practices. This month's column discusses how payday loans work and what protections the new law, effective December 6, 2005, provides.

Q. I've heard that Illinois recently passed a law regulating the payday loan industry. How will this new law help consumers?

A. Once one of only 14 states that did not regulate the payday loan industry, Illinois has been called the "wild, wild west of payday loans." Those days are about to end. The Payday Loan Reform Act of 2005, which my Office helped draft and pass, will save payday loan consumers in Illinois an estimated $45 million a year in fees that they are currently paying for this very expensive form of short-term credit.

To obtain a payday loan, a consumer typically writes a post-dated check for the amount he or she wants to borrow plus a lending fee that, under the current system, is sometimes as high as $50 for every $90 borrowed. The lender then gives the consumer the amount of the check, minus the fee, and holds onto the check until the consumer's payday. Trouble quickly develops if the consumer can't cover the check when it comes due—a circumstance the industry counts on to make money. To keep from bouncing their post-dated checks, payday loan consumers often must extend the original loan again and again, for additional fees, or use a payday loan from one lender to pay off a loan from another. In no time, they find themselves trapped in an endless cycle of debt.

The Payday Loan Reform Act of 2005 contains several important protections that work together to limit how much and how long a consumer can be in debt. Here are some of the law's key provisions, which apply to every payday loan issued on or after December 6, 2005:

- A lender may charge a fee of no more than $15.50 for every $100 loaned;
- If a consumer elects to repay his or her loan within two days, the lender must return the consumer's check, with the lending fee;
- A lender cannot make a payday loan if the loan would result in the consumer's being in payday loan debt for more than 45 consecutive days;
- A lender cannot make a payday loan to a consumer who has an outstanding balance on two payday loans;
- When a consumer pays off the balance of all payday loans taken out in a period of 39 or more consecutive days, a lender must wait seven days before issuing that consumer a new payday loan; and
- After being in payday loan debt for 35 days, a consumer is entitled to enter into a repayment plan that permits him or her to pay off ***any*** outstanding payday loans in installments, with no additional fees, interest, or charges of any kind.

Although these protections mark a giant step forward for Illinois consumers, payday loans remain among the most expensive forms of short-term credit. Consumers should consider taking out a payday loan only after they have exhausted all other options.

To report a violation of the Payday Reform Act of 2005, please call the **Illinois Department of Financial and Professional Regulation** at **(312) 814-2000** or **(217) 782-2831**. Or you can call my Office's **Consumer Fraud Hotline** at the numbers listed below. For more information on payday loans and other forms of credit, visit my Web site at **www.illinoisattorneygeneral.gov**.

Attorney General Lisa Madigan's Consumer Fraud Hotlines

Chicago	Springfield	Carbondale
1-800-386-5438	1-800-243-0618	1-800-243-0607
1-800-964-3013 (TTY)	1-877-844-5461 (TTY)	1-877-675-9339 (TTY)